

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF NORTHERN INDIANA PUBLIC
SERVICE COMPANY FOR APPROVAL OF
ANNUAL DEMAND, TAKE-OR-PAY,
TRANSITION AND STORAGE AND
TRANSMISSION COSTS TO BE APPLICABLE
IN THE TWELVE-MONTH PERIOD, BEGINNING
NOVEMBER 1, 2006

CAUSE NO. 41338 GCA 8

ANNUAL FILING

APPROVED: MAR 22 2007

BY THE COMMISSION:

Gregory D. Server, Commissioner
Abby R. Gray, Administrative Law Judge

On August 29, 2006 in accordance with the Commission's August 11, 1999 Order in Cause No. 41338, Northern Indiana Public Service Company ("Petitioner" or "NIPSCO"), filed its verified Petition in this Cause for approval of the annual demand, storage and transmission cost of NIPSCO's rates, to be applicable during the twelve-month period beginning November 1, 2006.

On August 31, 2006, the Board of Commissioners of LaPorte County ("LaPorte") and on September 14, 2006, Mittal Steel USA, Praxair, Inc., and U.S. Steel Corporation (collectively called "NIPSCO Industrial Group") petitioned to intervene in this proceeding.

Pursuant to notice published as required by law, proof of which was incorporated into the record by reference and placed in the official files of the Commission, a Prehearing Conference and Preliminary Hearing was held in this Cause on October 5, 2006 at 3:30 P.M. EST in Room E306, Indiana Government Center South, Indianapolis, Indiana. The Petitions to Intervene of LaPorte and the NIPSCO Industrial Group were granted during the October 5, 2006 hearing. A hearing schedule was adopted. On October 6, 2006, NIPSCO filed its Unopposed Motion to Make Rates Effective Subject to Refund ("Motion"). In its Motion, NIPSCO proposed that the rates as contained in its August 29 Petition be made effective, on an interim basis, subject to refund. The Motion stated that the estimated GCA demand cost of \$79,446,877 represents a 0.8% decrease over the total GCA costs of \$80,085,084 as approved by the Commission's Order of July 26, 2006, in GCA7. The Motion also stated that the Office of Utility Consumer Counselor ("OUCC"), LaPorte and the NIPSCO Industrial Group had no objection to the interim relief. By an Order issued October 19, 2006, NIPSCO's Motion was granted.

Pursuant to notice published as required by law, proof of which was incorporated into the record by reference and placed in the official files of the Commission, the evidentiary hearing was held in this Cause on February 7, 2007 at 9:00 a.m. EST in Room E306, Indiana Government Center South, Indianapolis, Indiana. NIPSCO and the OUCC presented testimony and exhibits. No member of the ratepaying public appeared at the hearings.

Based upon the applicable law and evidence presented herein, the Commission now finds:

1. **Notice and Jurisdiction.** Petitioner owns and operates a public utility which is subject to the jurisdiction of this Commission as provided in the Public Service Commission Act, as amended.

In Cause No. 41338, the Commission's August 11, 1999 Order approved a proposed redesigned mechanism consisting of two parts: a monthly commodity filing and an annual demand charge filing. Under this mechanism, NIPSCO has been making a monthly commodity filing to determine the gas commodity component of the GCA factor for a calendar month with twelve monthly filings being made each year. NIPSCO began making these monthly commodity filings on September 1, 1999. Also, under the redesigned GCA mechanism as approved by the Commission, Petitioner is required to make an annual filing three working days prior to September 1 of each year to determine the demand component of its gas costs for the twelve months to be effective on November 1 of the year in which the annual filing is made. Petitioner's August 29, 2006 Petition represents the eighth annual filing pursuant to the redesigned GCA mechanism as approved by the August 11, 1999 Order. Therefore, the Commission has jurisdiction over the parties and the subject matter of this Cause.

2. **Petitioner's Characteristics.** Petitioner is engaged in rendering natural gas utility service to the public within the State of Indiana and owns, operates, manages and controls plant and equipment used for distribution and furnishing such service.

3. **Petitioner's Direct Evidence.** NIPSCO presented the direct testimony of Mr. F. Chico DaFonte and Ms. Cathy E. Hodges. Mr. DaFonte, Director of Energy Supply Services for NIPSCO, described the various sources of natural gas to be purchased by NIPSCO during the twelve months beginning November 1, 2006. During the twelve-month period beginning November 1, 2006, Petitioner will purchase supply under arrangements on both a term and spot market basis. In order to achieve diversity of supply, NIPSCO has entered into long-term firm transportation contracts with Natural Gas Pipeline Company of America ("Natural"), Panhandle Eastern Pipe Line Company ("Panhandle"), Trunkline Gas Company ("Trunkline"), ANR Pipeline Company ("ANR"), Midwestern Gas Transmission ("Midwestern"), Vector Pipeline ("Vector") and Northern Border Pipeline ("Border").

The long-term firm long-haul transportation contracts with Natural, Panhandle, Trunkline and ANR will have an aggregate Maximum Daily Quantity ("MDQ") during the peak season of 525,251 Dekatherms ("Dth") and an off-peak MDQ of 356,649 Dth. Firm storage service contracts with Natural, Panhandle, ANR, Moss Bluff Hub Partners, L.P. ("Moss"), Kinder Morgan Texas Pipeline, L.P. ("KMTP"), ENSTOR Operating Company ("Katy") and Egan Hub Partners, L.P. ("Egan") are anticipated to provide annual storage volumes of 32,515,551 Dth, with a maximum daily withdrawal capacity of 651,246 Dth to meet winter peaks. These contracted supplies are reinforced with Company-owned underground storage with a capacity of 6,750,000 Dth and LNG storage with a capacity of 4,000,000 Dth, both of which are located within NIPSCO's service territory. Mr. DaFonte

stated that during a design peak day, 75% of the projected peak demand can be supplied by storage, 18% can be supplied with transported supply and 7% can be supplied with citygate delivered supply.

Mr. DaFonte also described NIPSCO's competitive bidding process. He stated that twice a year, NIPSCO conducts a Request for Proposal ("RFP") process to secure bids for term, firm, gas supplies. One RFP is prepared for the peak season and the second is prepared for the off-peak season. According to Mr. DaFonte, the RFP process is used to contract for firm gas supply at specific points, under known pricing methods for a defined period of time. He said the RFP process also includes a determination of the volume of gas that can be received by NIPSCO each day, month, and/or season with minimum and maximum supply constraints. This evaluation takes into account projected customer demand requirements in addition to storage and transportation rights. Mr. DaFonte testified that NIPSCO solicits bids from current and potential trading partners via an RFP form requesting bids on a variety of deal structures and pricing at specific locations. The bids are reviewed, taking into account current market conditions, value to customers, application to portfolio, and supplier financial condition and historical performance. He stated that historically through the RFP process, NIPSCO has awarded a variety of deal structures to multiple suppliers at a variety of locations to create the most competitive, low/cost, and diversified portfolio reasonably possible. Mr. DaFonte noted that NIPSCO purchased gas supplies from 35 different suppliers during the winter period of November, 2005 through March, 2006.

Mr. DaFonte also described transportation agreements, which permit NIPSCO to transport additional volumes of natural gas to its distribution system when needed. NIPSCO has short-haul firm transportation agreements with both Panhandle (MDQ of 20,000 Dth) and Trunkline (MDQ of 35,000 Dth), the purpose of which is to move gas between NIPSCO's Zone "A" and "B" service areas. Additionally, NIPSCO has short-haul firm transportation contracts with Vector (MDQ of 43,000 Dth), Border (MDQ of 165,000 Dth); Panhandle (MDQ of 15,165 Dth) and Midwestern (MDQ of 70,000 Dth).

Mr. DaFonte also reviewed the major changes in Petitioner's contractual agreements since the filing of his testimony in Cause No. 41338 GCA7. Those changes are (1) NIPSCO has renegotiated its transportation contract with Vector, (2) a short-haul contract from the Chicago market hub to NIPSCO's citygate was negotiated for an MDQ of 30,000 Dth per day and (3) a short-haul contract path from the Chicago market hub extending to market area storage in Michigan was negotiated for an MDQ of 13,000 Dth per day.

Mr. DaFonte testified that NIPSCO has continued its forward price volatility mitigation program for the 2006-2007 winter. Mr. DaFonte stated that NIPSCO has established a plan that targets hedging the price on 20 percent of projected flowing gas supply purchase requirements for the winter months of November through March. Mr. DaFonte said NIPSCO has elected to achieve the hedge objective through the use of a dollar cost averaging method with the pre-planned purchase of NYMEX Future contracts at pre-planned execution times spread evenly across the preceding twelve month period. Mr. DaFonte noted that the full effect of volatility mitigation hedging activity will be directly passed onto customers.

Mr. DaFonte stated that NIPSCO typically physically hedges approximately 40% to 50% of its firm sales customers' expected normal winter requirements through fixed price storage inventories. By establishing a 14% to 20% financial hedge on the remaining 60% of its winter supply requirements, Mr. DaFonte said that NIPSCO effectively hedges 50% to 65% of its firm sales customers' expected total normal winter requirements, depending on anticipated customer usage. Mr. DaFonte believed that this level of hedging strikes an appropriate balance for customers in that it provides an appropriate amount of protection in the event of a price run-up, while allowing customers to receive some benefit in the event of declining prices. He also said that this level of hedging strikes a balance with various winter scenarios so that NIPSCO is not over hedged during a warmer than normal winter and under hedged during a colder than normal winter. Mr. DaFonte predicted that under normal weather conditions, approximately 49% of NIPSCO's firm sales customers' requirements will be physically hedged through fixed price storage inventory and 15% will be hedged financially through NYMEX futures. That is, approximately 64% of anticipated firm sales requirements will be hedged for the 2006-2007 winter period. Mr. DaFonte testified that, in his opinion, the Company's price volatility mitigation program is consistent with Paragraph 4 of the Stipulation and Settlement Agreement as approved by the Commission's August 18, 2004 Order in Cause No. 41338 GCA5.

Mr. DaFonte then went on to describe the method for developing estimated volumes. Petitioner, utilizing recent historical consumption data, forecasts changes in consumption patterns and normal weather, and estimates the requirements of its customers for the twelve-month period ending October 31, 2007. Then, in order to determine the source of supply which will be used to serve these requirements, the Company considers the availability of supply, operational and contractual requirements and price of supply. After satisfying operational and contractual requirements, the source of supply to serve the forecast load is determined through least cost purchasing practices. That is, contract maximums are purchased first from the lowest cost supplier, including spot market suppliers, then from the next lowest cost supplier. According to Mr. DaFonte, this process ensures that NIPSCO's estimated gas cost and storage costs are predicated upon the lowest cost of gas reasonably possible.

Ms. Hodges submitted testimony detailing the various schedules required by the Commission's GCA regulations, reconciliation calculations and the resulting GCA factors that became effective November 1, 2006.

Ms. Hodges also filed direct testimony regarding NIPSCO's compliance with the Commission's September 10, 2003 Order in Cause No. 41338 GCA4 ("September 10 Order"). In her Direct Testimony in this proceeding, Ms. Hodges stated that beginning in April, 2004 in each of the monthly GCA commodity filings NIPSCO priced its storage injection and withdrawal activity for GCA purposes at the weighted average storage year to date injection price based on year-to-date volumes purchased and injection volume activity beginning in April of each year. As an example, she said the April, 2006 storage activity for GCA purposes was valued at the April injection price. May, 2006 storage activity for GCA purposes was valued at the weighted average price of April and

May, 2006 and so on. She opined that the pricing methodology reflects the price of the volumes injected at the times of injection and will result in prices that predominantly reflect injection season prices. Any difference between the actual gas costs per the financial books and the estimated gas costs collected via the GCA will be treated as part of the monthly gas cost variance and flowed back or recovered over 12 months.

Ms. Hodges then addressed the manner in which NIPSCO will account for invasions into Last-in, First-out ("LIFO") storage layers. On a periodic basis for the financial books, NIPSCO will determine if a storage layer has been created or depleted per LIFO inventory accounting. In the event that a layer is created or anticipated to be created, it would be priced and booked at the actual weighted average calendar year annual price of actual volumes purchased. In the event a layer is depleted or anticipated to be depleted, it will be depleted for financial accounting purposes at the actual book layer price. For GCA purposes, the costs of such layer depletion above or below market price will be treated as a variance and recovered or flowed back over 12 months. She said the relevant market price to be used in this calculation will be an average of the forward-looking NYMEX prices for the seven months of the upcoming storage injection season. She stated that NIPSCO has not made any invasions of storage layers to date, which would require various treatment. She noted that the Commission's August 24, 2005 Order in Cause No. 41338 GCA6 confirmed NIPSCO's GCA storage pricing methodologies as in full compliance with the Commission's directives as contained in the September 10, 2003 Order in Cause No. 41338 GCA4.

Ms. Hodges also described measures that NIPSCO has undertaken to comply with the provisions of the Stipulation and Settlement Agreement ("Agreement") filed June 11, 2004 in Cause No. 41338 GCA5 as approved by the Commission's August 18, 2004 Order in that Cause. Specifically, she noted that Paragraph 2C of the Agreement includes a detailed audit timeline, and NIPSCO developed a similar timeline for GCA8 and has met each milestone of that timeline. Finally, Ms. Hodges stated that NIPSCO is requesting the refund obligation be eliminated for the months of August through December, 2005 and January through July, 2006. She noted that a similar procedure had historically been established in the quarterly GCA filings.

4. **OUCC Direct Evidence.** The OUCC presented the revised Direct Testimony of Jerome D. Mierzwa, Vice President of Exeter Associates, Inc., who was retained by the OUCC to review the reasonableness of the reported gas costs and the results of NIPSCO's GCIM. After describing the GCIM and the benchmark methodology, Mr. Mierzwa made the following findings and recommendations: (1) he found that NIPSCO had adequately documented its actual cost claims and GCIM results, (2) he found that NIPSCO has reasonably administered interstate pipeline transportation demand cost reduction program during the GCA audit period, (3) although he found that NIPSCO had adequately documented its GCIM results, he recommended that the OUCC and NIPSCO discuss, as part of the quarterly GCA meeting forums, the potential impact of the park, loan and virtual storage services on the commodity cost of gas, (4) he recommended that NIPSCO reconcile its phase of capacity release revenues for differences between actual and estimates and (5) he recommended that interest and late charges incurred from interstate pipelines be excluded from future GCA rates.

5. **Discussion and Findings.** There were no contested issues in this proceeding. There was no evidence submitted to rebut the conclusion that NIPSCO has purchased gas at the lowest costs reasonably possible.

Mr. Mierzwa proposed that discussions take place in the quarterly GCA forum regarding certain issues underlying NIPSCO's GCIM. To the extent there are agreements as a result of these discussions, or any other discussions that take place regarding NIPSCO's GCA mechanism, NIPSCO should file such agreements with the Commission for its review and approval. The Commission finds that NIPSCO's proposed GCA factors should be approved as just and reasonable and consistent with the statutory standards set forth in Ind. Code § 8-1-2-42(g).

6. **Reconciliation.** Indiana Code § 8-1-2-42(g)(3)(D) requires the Commission to find that Petitioner reconciled its estimation for a previous recovery period with the actual purchased gas costs for that period. Witness Hodges testified that Petitioner had net over-collected revenues for the period August 1, 2005 through July 31, 2006 of \$35,859,196. Witness Hodges testified that Petitioner's net over-collection was due primarily to the actual commodity cost of gas being lower than estimates.

7. **Resulting Gas Cost Adjustment Factors.** Combining the total pipeline demand cost of gas to be recovered of \$43,670,675 with the contracted storage and transmission costs of \$35,667,242 and \$108,960 results in total estimated annual demand costs of \$79,446,877 for the twelve-month recovery period beginning with the November, 2006 billing cycle. After dividing by estimated annual sales, the requested annualized demand costs per therm are calculated for the November 1, 2006 - October 2007 period as follows:

Class 1 Residential	\$0.0921
Class 2 General Service and Class 4 CNG	\$0.0712
Class 3	\$0.0000

With regard to the additional costs associated with Storage and Transmission, NIPSCO offered evidence supporting the following charges:

FDTs	a charge of	\$0.0165/Therm
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With regard to the Tiered Surcharge to Choice customers, NIPSCO offered evidence supporting the following surcharges:

Residential	\$0.0193
Commercial	\$0.0199

All prior variances for these charges are included in Petitioner's monthly commodity filings.

8. **Interim Rates.** The Commission is unable to determine whether Petitioner will earn an excess return while this GCA is in effect. Accordingly, the Commission finds that the approved rates herein should be interim rates subject to refund, pending reconciliation of the gas costs in a subsequent GCA, and in the event an excess return is earned.

9. **Removal of Refund Obligation.** Our GCA7 order imposed a refund obligation on NIPSCO's GCA revenues for the period commencing August 1, 2005 through July 31, 2006, pending a reconciliation of NIPSCO's gas costs and a determination as to whether an excess return has been earned. See Northern Indiana Public Service Company, Cause No. 41338 GCA7 (July 6, 2006 p. 8) The testimony of Ms. Hodges reconciles NIPSCO's estimated gas costs to its actual gas costs. Also, as a result of its quarterly NGA filings, the Commission finds that NIPSCO has not earned an excess return during the twelve month period commencing August 1, 2005. Accordingly, the Commission grants NIPSCO's request that the refund obligation for this period be removed.

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. The Petition of NIPSCO for a Gas Cost Adjustment for natural gas service as set out above be, and the same is hereby approved subject to refund in the event that an excess rate of return is earned.

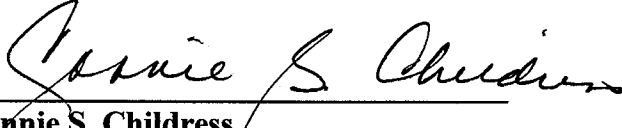
2. Petitioner shall file with the Natural Gas Division of this Commission the tariff changes approved herein.

3. The refund obligation imposed by the July 26, 2006 Order in Cause No. 41338 GCA7 for the twelve month period commencing August 1, 2005 is hereby removed.

4. This Order shall be effective on and after the date of its approval.

GOLC, LANDIS, SERVER AND ZIEGNER CONCUR; HARDY ABSENT:
APPROVED: MAR 22 2007

**I hereby certify that the above is a true
and correct copy of the Order as approved.**


Connie S. Childress
Acting Secretary to the Commission